Parkland Income Fund

2004 Annual Report

never standing still

Just like the investors and customers we serve, the Parkland group is on the move. Looking to the future, we have identified the key strategies and action plans that are going to drive us to the next level. Whether it's site upgrades, new accounts, better marketing brands and standards, accretive acquisitions, new applications of technologies or diversification – all of these actions will strengthen our existing performance, deliver future growth and create positive change.

Forward-Looking Statement *This annual report includes forward-looking statements regarding Parkland Income Fund's operations, anticipated financial performance, business prospects and strategies. Forward-looking information may involve words such as "believe", "expect", "anticipate", or similar words implying future outcomes. Readers are cautioned not to place undue reliance on forward-looking information because it is possible that predictions, forecasts and other forms of forward-looking information will not be achieved by Parkland Income Fund. Parkland Income Fund is under no obligation to update publicly or otherwise revise any forward-looking information.*

We remain
focused
on our core strategy of serving
non-urban markets
where Parkland
has a loyal customer base
with known brands,
lower real estate and operating costs
and more
stable
margins.

President and CEO
Andrew B. Wiswell

president's message

To Our Unitholders

We are proud to report that 2004 was another record year for Parkland, generating strong overall performance for its unitholders. We set our game plan and met or exceeded expectations on all dimensions. We implemented our core strategies, delivered improved business and financial performance, increased monthly distributions, achieved success in our key initiatives and the Board and Management set the course for our direction for 2005 and beyond.

These accomplishments and initiatives clearly demonstrate that 2004 was truly another year of never standing still.

Business and Financial Performance

Overall, our 2004 performance delivered record performance in all of our key measures – volume, merchandise sales, gross margin, EBITDA and total distributions. Our fuel volume was up 5.9 percent through growth in retail volume driven by our Fas Gas Plus upgrade program, higher average volume from our Short Stop convenience stores as well as continued growth in our wholesale business.

Merchandise sales grew by 21.7 percent, driven by new stores and a 14.3 percent increase in sales per store month. Fuel margins per litre were relatively consistent over the last three years. These factors drove gross margin higher by 7.1 percent.

Marketing, General and Administrative expenses increased by 8.2 percent due to higher commissions on increased retail volumes, increased repairs and maintenance to enhance our sites, and higher operating costs associated with new convenience stores. Overall, 2004 EBITDA increased 5.1 percent. This strong performance encouraged the Board and Trustees to increase distributions by seven percent from \$0.14 to \$0.15 per unit per month, effective September 15, 2004.

2004 Performance Measures

	2004	2003	% Change
Volume (millions of litres)	**1,101**	1,039	+ 5.9%
Merchandise Sales ($millions)	**38.1**	31.3	+ 21.7%
Gross Margin ($millions)	**82.9**	77.4	+ 7.1%
EBITDA ($millions)	**30.5**	29.0	+ 5.1%
Total Distributions ($millions)	**21.1**	20.4	+ 2.9%

2004 Key Initiatives

- Network Upgrades ↑
- Brand Quality ↑
- Non-fuel Contribution ↑
- Team Capability ↑
- Corporate Governance ↑

Key Initiatives

Each year, we commit to specific key initiatives which are targeted to increase cash flow growth and stability for the future. One of these initiatives is our Fas Gas Plus upgrade program. In 2004, we upgraded 23 sites, exceeding our target of 18, to bring the total number of Fas Gas Plus stations to 44. In addition, we opened four new large format Short Stop convenience stores as planned. Overall, our enhanced volume and in-store performance from our upgraded sites is very encouraging. The enhanced brand quality and our focused marketing programs increased customer brand awareness and overall satisfaction. In terms of our commissioned fuel operations, non-fuel contribution grew by approximately seven percent, a trend which is expected to continue in 2005.

Our overall team capability continued to grow, with strong contributions from our new Marketing and Business Development group and our new manager of our trucking division, Petrohaul, continues to make positive change. We also expect that new hires in our territories will make their presence felt in 2005.

As to our Corporate Governance, we continue to stay abreast of regulatory changes and work with our Board, our Board Committees, our Trustees and our new Auditors to ensure compliance with all mandates and processes.

The success of our key initiatives each year is another example of how Parkland is never standing still.

Key Strategies – 2005 and Beyond

Grow Volume and Cash Flow
- upgrade existing assets
- add new sites / dealers
- accretive acquisitions

Increase Competitiveness
- enhance brand / standards
- grow non-fuel revenues
- reduce net unit operating costs

Actively Manage Risk
- active supply management
- add assets / infrastructure
- retain conservative leverage

Drive Positive Change
- broaden use of technology
- organizational change initiatives

Future Direction

Looking to Parkland's future direction, our key strategies will support our overall mission to deliver consistent distributions to our unitholders at targeted levels – that's our top priority at Parkland. Our four key strategies that support those directions are to grow volume and cash flow, increase competitiveness, actively manage risk and drive ongoing positive change. We are confident that these strategies will generate strong performance at Parkland, and we believe that by never standing still we will continue to achieve our objectives and perform for our unitholders.

Outlook for 2005

For 2005, we are expecting higher volumes and increasing non-fuel revenues to be offset by lower margins attributable to higher product costs. Assuming no acquisitions, we expect to meet or exceed our 2004 EBITDA and continue our distributions at $0.15 per unit per month.

We will continue to assess acquisition opportunities that increase cash flow, add value to our unitholders and increase Parkland's size and unit liquidity. We will look for opportunities that are complementary to our existing businesses, consider investing in assets and infrastructure and pursue opportunities that would broaden our geographic presence.

In closing, we would like to express our appreciation to our customers, the management team, our employees and associates, Directors and Trustees, our retailers and suppliers, and our retail and institutional investors for their commitment and support of Parkland over the past year. We look forward to continued success together.

Andrew B. Wiswell
President and CEO
March 1, 2005

never standing still

At Parkland, we're always looking for new ways and opportunities to improve our businesses. Here's a look at initiatives we accomplished in 2004, some of which will continue in 2005.

Corporate

- Improved overall financial performance
- Defined clear business plans and strategies
- Implemented a three-year Technology Plan
- Improved corporate governance practices
- Completed a positive Auditor transition
- Created new partner relationships
- Broadened investor awareness
- Improved credit / security
- Increased credibility within our industry

Marketing

- Upgraded brands and company standards
- Delivered new marketing programs

People and Processes

- Hired new management and field associates
- Improved operational plans and processes

Operations

- Implemented new dealer agreements
- Increased Health & Safety focus
- Broadened wholesale customer base
- Developed tank upgrade program
- Enhanced point of sale technology at sites
- Increased utilization of our Petrohaul fleet
- Completed a pump calibration program
- Introduced virtual phone cards for customers
- Improved overall retailer / dealer quality

operations review


Inuvik
Yukon
Whitehorse
Yellowknife
Northwest Territories
British Columbia
Alberta
Fort McMurray
Grande Prairie
Prince Rupert
Prince George
Edmonton
Red Deer
Calgary
Kamloops
Vancouver
Lethbridge

Parkland has focused on enhancing its retail stations to provide better service and product offerings. This map identifies Parkland's Fas Gas and Short Stop locations.

We have grown both fuel and non-fuel contributions with new and upgraded locations.

The largest contributor to Parkland's cash flow is its network of Fas Gas and Fas Gas Plus retail service stations. These stations are operated by commissioned operators who sell fuel on a consignment basis, earn a per litre commission and provide on-site labour and merchandise inventory. All operators use the pricing structure and operating procedures that have been established by the Fas Gas marketing team. At Fas Gas stations, the operators also retain control of their own in-store merchandising activities, while at the Fas Gas Plus locations, operators are guided by a Parkland merchandising program and a portion of in-store sales are retained by Parkland.

In addition to gasoline and diesel, Fas Gas markets propane at 45 of its stations. While overall demand for auto propane is declining, propane provides positive contributions and adds value for our customers in selected markets.

Retail Volume
(thousands of litres)

Number of Retail Outlets
(as of December 31, 2004)

retail marketing

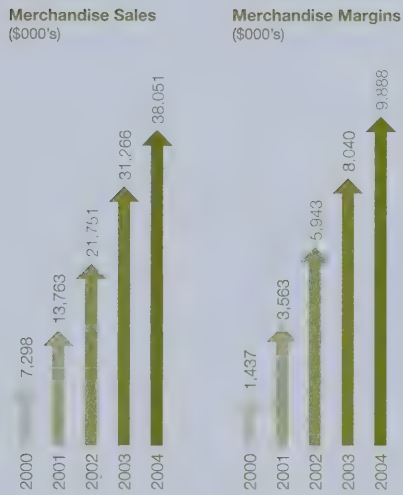
In 2004, Parkland continued its Fas Gas Plus enhancement program, which was initiated in 2003. Another 23 sites were upgraded across western Canada in 2004, bringing the total number of sites to 44. The Fund's commitment to constantly enhancing the quality of customer experience, as well as broadening our in-store products, continues to build loyalty to our brand.

Parkland's market niche and competitive advantage is its focus on non-urban markets, where Parkland has a loyal customer base with known brands, lower real estate and operating costs and more stable margins. The customer base is loyal primarily due to local operators, full service and our cash-back loyalty program.

During 2004, Parkland continued its Fas Gas Plus station enhancement program, with 23 more sites upgraded. The overall cost of the upgrade varies depending on the scope of the change, but is normally in the range of $225,000 per site. In exchange for Parkland's investment, contracts with operators now provide for sharing of in-store revenues. This upgrade strategy is a key component to increase volume and non-fuel revenue and to reduce reliance on fuel margins.

Parkland's retail volumes were relatively flat from 2000 to 2003 as the focus of our capital investment was on converting existing Fas Gas sites to Short Stop convenience stores, which led to site disruptions and a lesser focus on opening new service station sites. In 2004, retail volumes increased by four percent to 481 million litres as a result of the Fas Gas Plus upgrade program, increased average volumes at our Short Stop sites and more successful marketing programs. Retail volumes are targeted to increase further in 2005 as an additional 15 to 20 sites will be upgraded and the benefits of prior years' investments continue to be realized.

We continued to **grow** our convenience store offering in 2004. Four new stores and **new food service** ideas will support growing non-fuel revenue.



merchandise

Parkland's convenience store business has been a key catalyst for our non-fuel revenue growth. We have continued to grow merchandise sales from our stores and expect strong growth to continue as we move forward.

Launched in 1999, Short Stop Food Stores offer customers fuel and a broader selection of food and convenience products from a larger format store. Stores are usually 2,400 square feet as compared to 800 - 1,000 square feet for a typical Fas Gas Plus. These owned and company-operated stores offer a variety of food, beverage, snack and convenience products together with services such as lottery terminals, phone cards and automated teller machines. In an increasing number of sites, the stores include a selected fresh food offering. The Short Stop division is managed by a team of experienced merchandise and convenience professionals. This team evaluates and selects sites that would make profitable store locations, develops marketing programs for the brand overall, manages relationships with merchandise suppliers and oversees daily operations at the sites.

In 2004, Parkland added four stores, bringing the network of large format convenience stores to 34. Many of these stores are in smaller communities and provide the only 24-hour service in the area.

Short Stop's merchandise sales continue to grow commensurate with the increasing number of stores and the maturation of the existing stores. Total sales in 2004 of $38.1 million is a 21.7 percent increase over 2003 sales of $31.3 million, which in turn were a 43.7 percent increase over 2002 sales of $21.8 million. This sales growth, combined with increasing average margins in 2004, has led to significant increases in total merchandise margins.

The ongoing growth of the network has significantly improved Short Stop's relationships with suppliers and vendors, resulting in better product costs, improved timely access to broader product selections and increased overall promotional support. These relationships have also contributed significantly to the early success of the Fas Gas Plus in-store initiative.

Our wholesale fuel operation is moving upmarket, with average volume and contribution per site increasing.

Sales Volume
(thousands of litres)

Sales Volume by Category
(thousands of litres)

wholesale marketing

In recent years, RT Fuels has been the fastest growing business segment for Parkland. The growth in average volume per site, new site additions and new reseller customers have driven overall results higher.

RT Fuels is Parkland's wholesale fuels business, which sells and delivers fuel to 222 independent branded retail dealers who operate their own sites. These retail dealers are located throughout western and northern Canada, and are provided with a known brand, promotional programs, a proprietary fleetcard offering and a Gold Points loyalty program in exchange for a long-term contract to supply motor fuels. If required, RT Fuels will provide signage and fuel pumps on an on-loan basis. Financing may also be made available to dealers for tanks and building upgrades. Parkland's typical investment in a RT Fuels site is $35,000 to $50,000, as compared to $200,000 to $500,000 in a Fas Gas Plus site or in excess of $800,000 in a Short Stop facility. The RT Fuels operating model provides attractive returns to Parkland even though the wholesale margin per litre is lower.

RT Fuels also sells directly to commercial customers, either through its 12 cardlock facilities or by direct delivery to customers who maintain their own tankage.

A third customer category is fuel resellers who sell fuel to their own retail and wholesale customers. This customer group is integral to the success of RT Fuels as it delivers incremental margin with no on-site investment and allows Parkland to move more volume throughout the year.

From our new operations centre in Edmonton, we are dispatching fuel to customers throughout western and northern Canada.

Petrohaul's fleet of 38 long haul trucks and 70 trailer units handles the majority of Parkland's fuel hauling requirements. This division has an established fuel ordering and dispatch system that is integrated with our inventory management process to provide strong customer service and manage fuel loads.

During 2004, Petrohaul's main base of operations was moved from Red Deer to Edmonton, Alberta. This strategic decision was made to deliver more efficient operations for the trucking fleet – the Edmonton base is much closer to the refineries where most of Parkland's fuel product is sourced. In addition to Edmonton, Petrohaul has smaller fleets based out of Kamloops, British Columbia; Calgary, Alberta; Regina and Saskatoon, Saskatchewan; and Whitehorse, Yukon.

In 1997, Parkland moved into Canada's north with Great Northern Oil, a Whitehorse-based network of retail outlets and a heating oil storage and distribution operation.

Great Northern Oil (GNO) is Parkland's Whitehorse-based northern operation, consisting of a network of retail fuel outlets branded either Fas Gas or RT Fuels. GNO is also one of the largest distributors of heating oil in the Yukon Territory.

In addition to its retail stations, Parkland has a terminal located in Whitehorse that is primarily used for storage and distribution of heating oil sold under the Great Northern Oil brand.

The current network of branded sites is strategically located throughout the Yukon Territory, northern British Columbia and the Northwest Territories. Fuel for GNO's operations is hauled from Edmonton, Alberta, and from Fairbanks and Haines in Alaska, primarily using Parkland's Petrohaul trucks. GNO generates business from local residents and seasonal tourist traffic, and is well positioned to benefit from future development in northern Canada and Alaska.

We are looking for ways for the Bowden refinery to be part of our future.

Parkland owns the Bowden refinery located just south of Red Deer, Alberta. This 6,500 barrel per day plant used condensate as a feedstock, which has typically been priced at a premium to crude oil in recent years. This condensate premium caused the fuel produced from Bowden to be more expensive compared to other sourcing alternatives and therefore operations at the refinery were suspended in September, 2001.

In 1999, the Fund initiated a process to sell the refinery to the Blood Tribe of Standoff, Alberta, and entered into a Letter of Intent which the parties updated in 2003. As of December 31, 2004, the Tribe continues to work on obtaining confirmation of its exemption from excise tax obligations from the Federal Government – a key condition to the transaction. The financial terms of the transaction are confidential but would take the form of ongoing streams of cash flow from the sale transaction and the provision of services to the enterprise.

Parkland's ability to deliver its targeted distributions to unitholders is not dependent on the completion of the sale. Parkland does not control the certainty or timing of the excise tax exemption. As a result of the uncertainty surrounding the Blood Tribe sale, Parkland is investigating other alternatives to generate value for the Bowden refinery site. We have approached product marketers, plant and infrastructure players and larger producers in the area to determine alternate processing, terminalling, blending and storage opportunities. These opportunities will continue to be explored in 2005.

corporate governance

The Fund delegates the management and administration of its business to Parkland Industries Ltd., a subsidiary of the Fund, and its Board of Directors.

The fundamental responsibility of Parkland's Board is to oversee the management of the business, with a view to delivering consistent and growing unitholder returns and ensuring the Fund conducts its business in an ethical and legal manner through an appropriate system of corporate governance.

Chairman of the Board

The Chairman of the Board is Jack C. Donald. He has served on the Board since 1977 and brings extensive management experience in the retail and wholesale fuels markets. His primary responsibilities are to:

- Provide leadership to the Board of Directors;
- Oversee the Board's effectiveness and assure it meets its obligations and responsibilities;
- Monitor and co-ordinate the functions of the Board with management to effectively maintain the separation of roles and responsibilities; and
- Provide advice and counsel to the President and Chief Executive Officer (CEO) respecting matters within the purview of the Board.

Board Independence

The Board of Directors is made up of seven members; six are independent and unrelated. The only related Director is Andrew B. Wiswell, President and CEO of Parkland Income Fund. The Board met five times in 2004 and had a 97 percent attendance rate.

Board Structure

Parkland has two committees, made up entirely of independent, unrelated Directors. These committees are: the Audit Committee and the Human Resources and Corporate Governance Committee.

Audit Committee

The members of the Audit Committee are: James Pantelidis (Chair), Robert Brawn and Kris Matthews. All members are independent Directors. The Chair is appointed by the Board of Directors. The Committee met five times in 2004 and had a 93 percent attendance rate.

Financial Literacy

All audit committee members are financially literate. James Pantelidis and Robert Brawn both have significant experience as senior executives and board members of public companies. Kris Matthews is a Certified Management Accountant with extensive experience providing financial consulting services to businesses and also is the audit committee chair of another income fund.

The Audit Committee Mandate

The Audit Committee is appointed by the Board of Directors of Parkland Industries Ltd. (the "Corporation") to assist the Board in discharging its oversight responsibilities. The Audit Committee will oversee the financial reporting process with a goal of ensuring the balance, transparency and integrity of published financial information of the Corporation and of Parkland Income Fund (the "Fund"). The Audit Committee will also review: the effectiveness of the Corporation's and the Fund's internal financial control and risk management system; the effectiveness of the internal audit function; the independent audit process, including recommending the appointment and assessing the performance of the external auditor of the Corporation and the Fund; the Corporation and the Fund's process for monitoring compliance with laws and regulations affecting financial reporting.

The Corporation and the Fund will comply with the policies and procedures overseen or reviewed by the Audit Committee and use their best efforts to ensure that these policies and procedures are implemented.

In performing its duties, the Audit Committee will maintain effective working relationships with the Board of Directors, management and the external and internal auditors. To perform his or her role effectively, each Audit Committee member will need to develop and maintain his or her skills and knowledge, including an understanding of the Audit Committee's responsibilities and of the company's business operations and risks.

The members of the Audit Committee will be financially literate and independent as defined by Multilateral Instrument 52-110.

Although the Audit Committee has the powers and responsibilities set forth in this Mandate, the role of the Audit Committee is oversight. The members of the Audit Committee are not full-time employees of the Corporation and may or may not be accountants or auditors by profession or experts in the fields of accounting or auditing and, in any event, do not serve in such capacity nor are they experts in performing other tasks they are called on to perform by this Mandate. Consequently, it is not the duty of the Audit Committee to conduct audits or to determine that the Corporation's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles ("GAAP") and applicable rules and regulations. These are the responsibilities of management and the external auditor.

Authority

The Board authorizes the Audit Committee, within the scope of its responsibilities, to:

- Perform activities within the scope of this Mandate;
- Engage independent counsel and other advisors as it deems necessary to carry out its duties;
- Ensure the attendance of corporate officers at meetings, as appropriate;
- Request and gain access to members of management, employees and relevant information to perform this Mandate;
- Establish procedures for dealing with concerns of employees regarding accounting, internal control or auditing matters;
- Establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal controls or auditing matters;
- Approve the appointment, compensation, retention and annual scope of work of the external auditor; and
- Approve all engagement fees and terms as well as reviewing policies for the provision of audit and non-audit services by the external auditors and the pre-approval of such non-audit work as required by Multilateral Instrument 52-110.

The primary roles and responsibilities of the Audit Committee are:

Internal Control

- Oversee management's reporting on internal controls;
- Assess the overall effectiveness of the internal control and risk management frameworks through discussions with management and external auditors; and
- Review recommendations made by the external auditors.

Financial Reporting

- Gain an understanding of the current areas of greatest financial and internal control risk and of how these are being managed;
- Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on financial reports;
- Oversee the periodic financial reporting process implemented by management and review the interim financial statements, annual financial statements and relevant press releases or announcements prior to their release;
- Review management's process for ensuring that information contained in analyst briefings and press announcements is consistent with published financial information;
- Meet with management and the external auditors to review the financial statements, the key accounting policies and judgments and the results of the audit; and
- Review significant adjustments, material unadjusted differences, significant disagreements with management and critical accounting policies and practices and the Corporation's responses to these queries.

Compliance with Laws and Regulations

- Review the effectiveness of the system for monitoring compliance with laws and regulations;
- Obtain regular updates from management regarding compliance matters that may have a material impact on the Corporation's financial statements or compliance policies;
- Review the reports of management on regulatory compliance matters related to the business of the Corporation in the preparation of the financial statements; and
- Review the findings of material reports by regulatory agencies.

Working with Auditors

- Review the professional qualification of the auditors (including background and experience of partner and auditing personnel);
- Consider the independence of the external auditor and any potential conflicts of interest;
- Review on an annual basis the performance of the external auditors and make recommendations to the Board for the appointment, reappointment or termination of the appointment of the external auditors;
- Review all correspondence and memoranda relating to all audit and non-audit engagements provided by the external auditors in relation to the Corporation's present circumstances and changes in regulatory and other requirements;
- Discuss with the external auditor any audit problems encountered in the normal course of audit work, including any restriction on audit scope or access to information;
- Ensure that significant findings and recommendations made by the external auditors and management's proposed response are received, discussed and appropriately acted on;
- Discuss with the external auditor the appropriateness of the accounting policies applied in the Corporation's financial reports;
- Meet separately with the external auditors to discuss any matters that the Audit Committee or auditors believe should be discussed privately. Ensure the auditors have access to the Chairman of the Audit Committee when required;
- Review policies for the provision of non-audit services by the external auditors and, if required, the pre-approval of such non-audit work;
- Ensure the Corporation follows regulations for hiring audit firm personnel for senior positions after they have left the audit firm;
- Review management's proposed internal control plan for the coming year and ensure that there is appropriate coordination with the external auditor; and
- Perform all other functions required of audit committees by applicable regulatory authorities in connection with the termination or resignation of an auditor.

Reporting Responsibilities

- Regularly update the Board about Audit Committee activities and make appropriate recommendations;
- Ensure the Board is aware of matters brought to the attention of the Audit Committee that may significantly impact on the financial condition or affairs of the Corporation; and
- Prepare any reports required by regulations on the Audit Committee's Mandate and activities to be included in the section on corporate governance in the annual report.

Evaluating Performance

- Evaluate the Audit Committee's own performance, both of individual members and collectively, on an annual basis; and
- Assess the achievements of the duties of the Audit Committee specified in the Mandate and report the findings to the Board.

Review of the Audit Committee Mandate

- Review the Audit Committee Mandate annually and discuss any required changes with the Board; and
- Ensure that the Mandate is approved or re-approved by the Board.

Human Resources and Corporate Governance Committee

The members of the Human Resources and Corporate Governance Committee are: Alain Ferland (Chair), Robert Brawn and Joan Donald. All members are independent Directors. The Chair is appointed by the Board of Directors. The Committee met three times in 2004 and had a 100 percent attendance rate.

The Human Resources and Corporate Governance Committee Mandate

The Human Resources and Corporate Governance Committee has responsibility for reviewing all human resources and compensation matters pertaining to the Executive and Senior Management, and all matters pertaining to the Fund's corporate governance activities.

The primary responsibility of the Human Resources and Corporate Governance Committee is to assist the Board in carrying out its responsibilities by reviewing and making recommendations to the Board of Directors.

The primary responsibility of the Human Resources and Corporate Governance Committee are:

Human Resources – Executive and Senior Management

- Develop a succession plan for the position of CEO of the Corporation as required. The process will include the sourcing of qualified candidates and recommending the selected candidate to the Board of Directors, monitoring the CEO's performance and terminating the CEO if necessary;
- Review all aspects of remuneration received by the CEO of the Corporation;
- Review all aspects of remuneration received by the Board of Directors;
- Review recommendations from the CEO on the remuneration for Senior Management reporting directly to the CEO;
- Recommend to the Board of Directors for recommendation to the Trustees the granting of units under any Unit or Long-term Incentive Plans;
- Monitor the Associates' Gain Unit Plan and amend the terms of reference, methodology or eligibility; and
- Elaborate on the succession plan for Directors and Trustees for approval by the Board of Directors and / or Trustees.

Corporate Governance

- Recommend an effective Corporate Governance process to the Board consistent with the TSX guidelines;
- Review and monitor Board Corporate Governance procedures;
- Ensure that all Directors receive the orientation and ongoing training necessary to effectively carry out their responsibilities;
- Assess Board performance;
- Assess individual Board member's performance;
- Review annually the Board's processes and recommend changes to the Board where appropriate. This includes but would not be limited to reviewing the following:
  - the strategic direction processes of the Board;
  - the processes for monitoring performance of the Board;

- the adequate number and duration of Board meetings;
- the appropriateness of the annual schedule for regular agenda items for Board meetings;
- the appropriateness of the information provided to Directors both before and during Board meetings; and

- Maintain a summary of legislation and other developments affecting the duties and responsibilities of Directors. Review and approve the annual regulatory disclosure of corporate governance compliance, as required.

Board and Governance Committee Structure and Appointments

- Review annually the scope, duties and responsibilities of the Board and its members, Board Chair and Board Committees and recommend any changes where advisable;
- Recommend the establishment or disbandment of Board committees;
- Recommend candidates to fill Board, committee and committee chair vacancies;
- Recommend the appointment of Board committee members and committee chairs;
- Recommend, when required, a candidate for appointment to the office of Board Chair;
- Maintain an ongoing succession plan for Board members that takes into consideration the desired composition of the Board; the strengths, skills and experience of current Directors; expected retirement dates; the strategic direction of the organization and the financial market's need for strong independent representation;
- Develop and maintain a process and criteria for identifying, recruiting and appointing new Directors and Trustees;
- Recommend to the Board nominees for election to the Board at the Annual Meeting of Unitholders; and
- Advise the Board when an issue of conflict or potential conflict arises which may result in the tendering of a resignation by a Director.

Board and Board Member Effectiveness

- Establish a process to review and monitor the effectiveness of the Board as a whole and individual Board members and make recommendations to the Board to enhance the development of corporate governance. Although the process calls for a review by the Committee, any Board member has the option to discuss directly with the Chairman of the Board any matter that pertains to the effectiveness of the Board or the performance of any Board member. It is understood that the non-performance of a particular Board member is a serious matter. It is the responsibility of the Chairman to address the issue and take appropriate actions.

Other

- Review and make recommendations on functional and operational matters relating to the Board, such as the requirement for Board meetings without management present. The Chairman of the Board is responsible for ensuring that the Board functions in a normal manner;
- Monitor the quality of the relationship between management and the Board and recommend improvements deemed necessary or advisable;
- Discuss recommendations in general with the Chief Executive Officer before making such recommendations to the Board;
- Consider and approve, in advance and if considered appropriate, reasonable requests from individual Directors or committees of the Board to engage outside advisors in accordance with the organization's policy on the use of outside advisors. The Chairman of the Board should be consulted prior to the approval; and
- Review annually Directors' and Officers' third party liability insurance coverage.

No alteration of the roles and responsibilities of the Human Resources and Corporate Governance Committee shall be effective without the approval of the Board.

Parkland Board of Directors

Robert G. Brawn

Jack C. Donald

Joan M. Donald

Alain Ferland

Robert G. Brawn

Mr. Brawn brings significant experience to Parkland's Board of Directors, having held various management roles with companies operating in the oil and gas industry. Mr. Brawn holds several directorships that span a variety of industries, including banking, energy, construction and retail. He is currently Chairman Emeritus of Acclaim Energy Trust, and a Director of ATB Financial, Forzani Group Ltd. and Zapata Energy Ltd. He is Chairman of Grande Cache Coal Corporation and the Van Horne Institute (Transportation Studies Policy Group).

Jack C. Donald

Mr. Donald is the founder of Parkland Industries Ltd., and served as its President and Chief Executive Officer since its establishment in 1977 to 2002. He is currently Chairman of the Board. Mr. Donald is also the Chairman of the Board of Canadian Western Bank and Trust and is a Director of TransAlta Corporation, Ensign Resource Service Group Inc. and Canadian Direct Insurance. He is a recipient of the Canada Award for Business Excellence, and is the only marketer member of the Canadian Petroleum Hall of Fame.

Joan M. Donald

Mrs. Donald is the former Assistant Corporate Secretary of Parkland Industries Ltd., a position she held from 1977 to 2001. She is currently the Vice President of Parkland Properties Ltd. Mrs. Donald has served on Parkland's Board of Directors since January 1977. She is an active member of the Red Deer community and received the Red Deer Citizen of the Year Award in 2004.

Alain Ferland

Mr. Ferland is the President of EFFA Management Inc. and has served on the Board since 1999. He is Chairman of the Human Resources and Corporate Governance Committee. He also serves on the Board of EARTH Canada Corporation. Mr. Ferland has been President of Aéroports de Montréal, IPL Inc., Geneka Biotechnologies and Ultramar Ltd.

Kris Matthews

James Pantelidis

Andrew B. Wiswell

Kris Matthews
Ms. Matthews has more than 20 years of experience providing accounting, financial and management consulting services to entrepreneurial enterprises. She is currently Principal of The Matthews Group. In 2002, she was awarded a Fellowship (FCMA) in recognition of her contributions to the community and the CMA profession. Ms. Matthews is Trustee and Chair of the Audit Committee for Prime Restaurants Royalty Income Fund and Director and President of PRC Trademarks Inc.

James Pantelidis
Mr. Pantelidis is currently Chairman and CEO of FisherCast Global Corporation. Prior to this, Mr. Pantelidis was President and CEO of the Bata International Organization. He also spent over 30 years in the petroleum industry, and was at one time President of both the Upstream and Downstream divisions of Petro-Canada. Mr. Pantelidis also serves as Chairman of Consumers Waterheater Income Fund, and is on the Board of Industrial Alliance Insurance Company and Rona.

Andrew B. Wiswell
Mr. Wiswell earned his law degree and practiced corporate and commercial law before pursuing his MBA at the University of Western Ontario. He joined Gulf Canada and spent 16 years in management roles including Vice President, Marketing and Senior Vice President Finance and Chief Financial Officer. He also served as the first CFO of Athabasca Oil Sands Trust, now Canadian Oil Sands, and later became President of ICG Propane. In 2001, he joined Parkland as President and Chief Executive Officer. Mr. Wiswell is a Director of the Canadian Petroleum Products Institute and Red Deer College.

mandate of the trustees

The Trustees have responsibility to supervise the investment in Parkland Industries Ltd. and conduct the affairs of the Fund.

The Trustees have the responsibility to, among other things:

- Maintain the records of the Fund and provide reports to the unitholders;
- Supervise the activities and manage the investments and affairs of the Fund;
- Ensure that the restrictions for non-resident ownership of units and ownership of foreign property are met;
- Declare distributions on the units and effect payment of distributable cash to unitholders;
- Vote in favour of the Fund's nominees to act as Directors of Parkland;
- Issue units, including grants under the Unit Option Plan and administration of the Unit Purchase Plan;
- Keep informed on all material developments concerning the business of the Fund; and
- Assess the contribution of all Trustees annually.

Parkland Trustees

Jim Dinning

Terry D. Lawrence

David A. Spencer

Jim Dinning

Mr. Dinning is the non-executive Chair of Western Financial Group, an Alberta-based western Canadian financial services company. Prior to 2005, he served as Executive Vice President of TransAlta Corporation. Before joining TransAlta, he held several key positions during his 11 years as a member of the legislative assembly of Alberta, including service as Provincial Treasurer (1992 to 1997). Mr. Dinning is also a Director of Western Financial Group, Finning International Inc., JED Oil, Oncolytics Inc., Russell Metals, Shaw Communications and Liquor Stores Income Fund. Mr. Dinning was appointed a Trustee of Parkland in 2004.

Terry D. Lawrence

Mr. Lawrence brings extensive business experience to his role of Trustee of Parkland Income Fund. He is currently the President and Director of Sheer Energy Inc. and has held other senior roles at a variety of energy production companies in Calgary. He is an active member of many local community groups and professional associations, including Rotary International. Prior to being appointed a Trustee in 2002, Mr. Lawrence served on the Board of Parkland Industries Ltd. since 1983.

David A. Spencer

Mr. Spencer is a Partner with Bennett Jones LLP in Calgary, specializing in corporate finance, mergers and acquisitions and corporate governance. He was appointed as a Trustee as part of the 2002 reorganization into a Trust.

environment, health and safety

Parkland is committed to responsible environmental controls in the areas in which it operates and to protecting the health and safety of its employees, customers and suppliers.

On the environmental front, Parkland has numerous detailed procedures in place, including: drilling and testing soils and testing tanks and lines on new sites; installing cathodic protection systems on steel tanks in its network; performing regular audits of peizometer wells on its sites; and following strict procedures for monitoring inventory balances at its locations. The Fund has also implemented a tank replacement program that provides for scheduled replacement of older tanks on a proactive basis.

In the past, the Fund has had divisional health and safety procedures in place for its key risk areas. In 2004, these procedures were supplemented by a third party consultant and internal Occupational Health and Safety Committee that represent all key areas of the Fund's business. This committee's mandate is to ensure consistent health and safety processes and documentation throughout the organization and to provide recommendations to management and employees for addressing occupational health, safety and training.

code of conduct

The Fund has established a Code of Conduct and Conflict of Interest Guidelines (the "Code"). The Code is provided to all employees and, in the case of Trustees, Directors, Officers and Senior Management, must be acknowledged as read and considered.

In cases where employees feel they have serious or sensitive issues, including possible breaches in the Code, the Fund has a Whistle Blowing Policy that provides a means for the employee to report issues confidentially and, if desired, anonymously. The Policy also outlines what actions will be taken and the feedback that will be provided to the employee to ensure that the issue has been addressed.

community involvement

Parkland strives to make a difference in the communities it serves. Each year, Parkland provides financial support to projects that focus on health, education and youth, and supports its employees and encourages their participation in community initiatives.

Parkland has made major contributions in recent years to the Alberta Heart & Stroke Foundation, the Canadian Cancer Society, the David Thompson Health Region, STARS Air Ambulance, Juvenile Diabetes, United Way, the Red Deer Regional Hospital Foundation and its Capital Campaign, as well as a number of regional food banks.

Parkland also sponsors "subject" awards at high schools in addition to offering scholarships for employees' children who wish to further their education. Support has also been given to the First Nations Scholarship program, School Business Partners, Safety City, Tools for Schools and the Red Deer College Capital Campaign.

A number of our marketing areas, in collaboration with our local dealers, sponsor youth sports teams. Support is given through financial assistance or gifts-in-kind.

Parkland's associates make a difference at a personal level through organizations such as service clubs, the Make a Wish Foundation, the Terry Fox Run, volunteer fire departments, Self Esteem Society, theatre groups, Girl Guides, Boy Scouts, The Women's Shelter, MADD, Safe Communities Coalition, Foster Parents Plan of Canada as well as coaching many sports teams and organizing community events.

privacy statement

Parkland has in place generally accepted standards of technological security for the purpose of protecting all information provided by customers, suppliers and employees from misuse, loss or corruption. Only authorized personnel have access to personally identifiable information submitted to Parkland. Such employees are required to maintain the confidentiality of this sensitive data. The policy also applies to any and all agents, affiliates and related entities of Parkland that may receive such information from Parkland.

financial review

management's discussion and analysis

Year Ended December 31, 2004

The following discussion and analysis of the results of operations and financial condition of Parkland Income Fund should be read in conjunction with the audited Financial Statements for the year ended December 31, 2004. The date of this discussion and analysis is February 17, 2005. Further information on Parkland Income Fund, including its Annual Information Form, is available from SEDAR at www.sedar.com.

Parkland Income Fund (the "Fund" or "Parkland") is an unincorporated, open-ended limited purpose mutual fund trust established under the laws of the Province of Alberta on April 30, 2002. The Fund was created to acquire the fuel marketing, convenience stores and related ancillary businesses formerly owned by Parkland Industries Ltd. This acquisition was completed on June 28, 2002 through a Plan of Arrangement that resulted in the previous Parkland Industries Ltd. shareholders indirectly exchanging their shares for Units in the Fund or Class B Limited Partnership Units in Parkland Holdings Limited Partnership ("LP Units"), a limited partnership controlled by the Fund.

Review of Operations

Parkland's Business

Parkland is one of western Canada's largest independent fuel marketers and in 2004 showed continued growth, achieving record sales volumes of 1.1 billion litres. Parkland operates or supplies a total of 433 service stations as compared with 457 at December 31, 2003. The December 2004 total consists of 211 (2003 – 214) retail stations operated under the Fas Gas, Fas Gas Plus or Short Stop brands and 222 (2003 – 243) independently owned wholesale supply accounts operated under the RT Fuels brand. Products sold through the network of service stations include gasoline and diesel fuel as well as propane at selected sites. It is Parkland's strategy to increase overall sales volumes, average volumes per site and contribution within its current marketing area. As a result, the actual number of stations may increase, remain stable or decrease as new sites are added and sites which are not generating adequate returns are closed, sold or contracts not renewed. The number of RT Fuels stations declined in 2004 as the Fund implemented a program to debrand sites which did not meet certain volume, contribution or appearance criteria. In most cases, Parkland still supplies these sites on an unbranded wholesale basis.

Short Stop Food Stores, Parkland's branded convenience store chain at select locations across western Canada, currently operates at 34 redeveloped locations. The Fund expects to add one or two more convenience store locations in 2005 as part of its growth strategy.

Competition and Market Positioning

The wholesale and retail gasoline business is highly competitive, with margin ultimately dependent on the spread between crude oil and retail gasoline prices. Due to its focus on smaller markets, Parkland has limited exposure (11 percent of its retail sites) to the more competitive larger urban markets where retail gasoline sales are dominated by major oil companies, grocery chains and large retailers. This non-urban focus means the Fund operates in markets where average sales volumes are lower but performance is enhanced by more stable pricing and margins, lower operating costs and less expensive real estate.

In recent years, the Fund has strategically focused on reducing its reliance on fuel margins by increasing other sources of revenue from its sites. The primary actions taken have been to launch the Short Stop convenience store brand in 1999 and the Fas Gas Plus station upgrade program initiated in 2003. By making investments in the sites, Parkland has realized the full benefit of the merchandise margins, net of operating costs, at the convenience store sites and has been able to realize additional rents based primarily on percentages of merchandise sales at the Fas Gas Plus sites. It is the Fund's intention to continue this strategy for the foreseeable future.

In the wholesale business, the Fund has focused on increasing its brand value to the independent operators. This has been accomplished through increased marketing and promotions, the Gold Points loyalty program, closing or debranding sites which do not meet minimum standards and pursuing larger volume and higher visibility sites.

The Fund's goals related to the above strategy are to provide stable and modestly increasing cash flows for its unitholders. Accretive acquisitions that fit strategically will continue to be actively pursued but are not necessary to meet the distribution targets.

Financial Performance

Summary Financial Information

($000's except volume and per unit amounts)

Years ended December 31	2004	2003 Restated *	2002 Restated *
Total assets	**$ 117,417**	$ 128,602	$ 126,458
Total long-term liabilities	**$ 17,612**	$ 18,170	$ 20,432
Sales volume (millions of litres)	**1,101**	1,039	897
Net sales and operating revenues	**$ 686,658**	$ 567,226	$ 471,730
Cost of sales and operating expenses	**603,766**	489,804	401,020
Gross margin	**82,892**	77,422	70,710
Expenses			
Marketing, general and administrative	**52,363**	48,374	45,139
Amortization of fixed assets	**9,242**	7,577	7,527
Loss on writedown of refinery	**25,310**	–	–
Interest on long-term debt	**738**	897	800
	87,653	56,848	53,466
Earnings (loss) before income taxes	**$ (4,761)**	$ 20,574	$ 17,244
Income tax recovery (provision)	**8,721**	(283)	(3,401)
Net earnings	**$ 3,960**	$ 20,291	$ 13,843
Per unit – basic	**$ 0.33**	$ 1.67	$ 1.16
– diluted	**$ 0.32**	$ 1.66	$ 1.16
EBITDA	**$ 30,529**	$ 29,048	$ 25,571

* *All financial information for prior years in this document has been restated to reflect the adoption of the new accounting policy for Asset Retirement Obligations as detailed in Note 2 to the Financial Statements and the Change in Accounting Policy described later in this Management's Discussion and Analysis.*

Non-GAAP Financial Measure

In this document there are references to non-GAAP financial measures such as EBITDA and Cash Available for Distribution. EBITDA refers to Earnings Before Interest Expense, Income Taxes, Depreciation and Amortization and the loss on the writedown of the refinery and can be so calculated from the GAAP amounts included in the Fund's financial statements. Management believes that EBITDA is a relevant measure to users of its financial information as it provides an indication of pre-tax earnings available to distribute to debt and equity holders in the Fund. The Fund's definition of EBITDA may not be consistent with other providers of financial information and therefore may not be comparable.

Cash Available for Distribution is defined in the Fund's Trust Deed and related documents and generally represents the cash available to be distributed to the Fund's Unitholders. Cash Available for Distribution is calculated as EBITDA less interest expense, current income taxes, if any, and maintenance capital expenditures. EBITDA is as defined above, while interest expense and current income taxes are GAAP measures. Maintenance capital represents capital expenditures made by the Fund to maintain its current business operations. This differs from growth capital, which represents capital used to expand the Fund's business operations.

Operations

Fuel sales volumes of 1.1 billion litres, merchandise sales of $38.1 million, gross margins of $82.9 million and EBITDA of $30.5 million all represent new records for Parkland and demonstrate the success of its business model and initiatives.

Net Earnings

Higher fuel volumes, consistent average fuel margins and increased merchandise sales and margins all contributed to higher gross margins in 2004. These increased margins were offset by a $4.0 million increase in marketing, general and administrative expenses and a $1.7 million increase in amortization over 2003. Consistent with the increases in margins and amortization expense, EBITDA in 2004 increased by $1.5 million over 2003. The net loss before tax was $4.8 million, down from $20.6 million in earnings in 2003 and $17.2 million in earnings in 2002. The primary reason for this decrease is the $25.3 million loss recorded on the writedown of the refinery assets. Excluding this item, net income before tax was $20.5 million, a decrease of $0.1 million from 2003.

Volumes

Gasoline and diesel volumes increased by approximately 60 million litres in 2004 to 1.1 billion litres. The Fund's station upgrade program was successful in driving increased retail volumes from existing sites while the addition of some higher volume sites led to increased volumes through the wholesale station network. Reseller volumes also increased nominally to match product purchase commitments. Retail volumes are driven by the number of stations in operation, general business and economic conditions, weather and competitive conditions in certain markets. Wholesale volumes are more dependent on general industry supply and demand conditions. Parkland plans to continue to generate modest volume increases through general market growth, better performance at existing sites and the addition of a limited number of new sites as opportunities arise.

Sales Revenue

Sales for the year ended December 31, 2004 were $686.7 million, an increase of 21 percent over the prior year. Fuel sales revenue varies with fuel volumes, overall average crude prices and retail and wholesale margins. In 2004, fuel sales revenue increased to $648.6 million from $536.0 million as a result of volume increases and higher average crude prices. Convenience store merchandise sales also increased with sales of $38.1 million in 2004 as compared to $31.3 million in 2003. Convenience store merchandise sales were up as a result of four additional stores added in 2004 and higher average sales per store month of $96,000 as compared to $84,000 per store month in 2003.

Cost of Sales and Gross Margins

Fuel cost of sales increased to $575.6 million in 2004 as compared to $466.6 million in the year ended December 31, 2003. Similar to sales revenue, cost of sales increased as a result of higher volumes and higher average per litre costs of fuel products. Fuel costs are generally driven by changes in the underlying cost of crude oil, which was on average 21 percent higher in 2004 than in the prior year. Convenience store merchandise cost of sales increased to $28.2 million in 2004 from $23.2 million in 2003.

These factors led to gross margins of $82.9 million in 2004, which was $5.5 million higher than the $77.4 million achieved in 2003. This increase was primarily driven by higher fuel volumes and a $1.8 million increase in convenience store margins. Overall fuel margins on a per litre basis were comparable to the prior year.

A key driver to margins is the Fund's ability to competitively purchase both fuel and convenience store merchandise. As one of the largest independent fuel retailers in western Canada, the Fund has established positive relationships with the key fuel suppliers in its market area and, amongst other purchase contracts, has a long-term contract with its principal fuel supplier. This contract provides the Fund with a consistently available source of supply at competitive prices. Additionally, the growth in the convenience store network and the implementation of the Fas Gas Plus marketing program has improved the Fund's relationships with wholesalers and merchandise suppliers, providing better pricing, increased incentives and additional promotional support.

Expenses

Marketing, general and administrative expenses were $52.4 million for the year ended December 31, 2004, an increase of 8.2 percent over 2003 expenses of $48.4 million. Drivers of increased costs included variable fuel marketing costs, which rose in conjunction with higher fuel volumes, and higher convenience store operating costs related to store openings.

The Fund incurred $2.0 million in maintenance expenses in 2004 related to the Fas Gas Plus upgrade program, as compared to $1.6 million in 2003. Although portions of the Fas Gas Plus program are recorded as maintenance capital, there are significant components which represent maintenance expenses. To a large extent these expenses are discretionary and are generating improved results at the upgraded sites.

Also included in marketing, general and administrative expenses for the 2004 calendar year are $0.6 million for environmental remediation costs as compared to $0.7 million in 2003. Generally, remediation costs for which the Fund is legally obligated are recorded as an Asset Retirement Obligation and expensed as accretion over the estimated life of the asset. Excluding accretion, amounts included in remediation costs generally relate to costs at sites where the Fund has replaced underground storage tanks even though it was not legally obligated to do so. It is the Fund's policy to upgrade tanks when a site is converted to a Short Stop convenience store. The Fund has a long-term tank replacement program and plans to continue incurring expenses annually to modernize its underground tank network and reduce its exposure to future environmental liabilities.

Loss on Writedown of Refinery Assets

In December 2004, the Fund reduced the carrying value of its Bowden refinery by $25.3 million to a net liability of $3.4 million based on the uncertainty of creating an alternative to the refinery being dismantled, remediated and sold for salvage values. A corresponding future tax recovery of $8.6 million was also recorded related to the writedown.

Operations at the refinery have been suspended since September 2001 pending the completion of a sale to the Blood Tribe/Kainaiwa Specific Claim Trust No. 1 of Standoff, Alberta. The sale terms are outlined in a non-binding Letter of Intent amended in October 2003. The Tribe is currently working on one of the key remaining conditions to the transaction which is to obtain confirmation from the Federal Government of its exemption from excise tax obligations on reserve lands. The Tribe has initiated legal action against the Federal Government related to this taxation issue. Should the remaining conditions to the sale be satisfied, the Fund would receive proceeds from the sale of the refinery assets out of the refinery cash flows realized subsequent to the sale. The total gain realized on the sale would be contingent on the amount of such cash flows.

In prior periods, the Fund has recorded the refinery assets at their previous carrying amounts based on the assumption that the sale to the Blood Tribe would be completed and that the proceeds from this sale would significantly exceed the carrying value. However, in 2004 no tax ruling has been given and it appears that court proceedings to achieve a ruling could take an extended period of time. Although the refinery remains in a state of readiness for such a sale, the uncertainty of the timing and ultimate successful completion of the sale is such that the sale value is no longer considered an appropriate measure of the value of the refinery assets. The Fund is also pursuing alternative uses for the refinery site and equipment and is in discussion with interested parties. However, to date there have been no specific financial proposals completed. The timing and cash flows related to possible alternative uses is also uncertain and not considered an appropriate measure for determining the value of the refinery assets.

The Fund remains optimistic that the refinery assets will generate positive cash flows in the future but, in the absence of specific timing or proposals, the decision was made to write down the assets to salvage value net of remediation costs. Remediation costs are supported by third party estimates while salvage values are based on management estimates.

Annual costs of approximately $400,000 will continue to be incurred to protect the value of the refinery assets until the sale is completed or an alternate use is in place. These costs primarily relate to security, maintenance, insurance and property taxes and will continue to be expensed as incurred. These costs have been incorporated into our plans and budgets when determining current distribution levels.

Capital Assets and Amortization

Amortization expense increased to $9.2 million from $7.6 million in 2003. Increases in amortization related to the additional assets employed and to the revisions of estimated useful lives of some asset classes.

During 2004, the Fund expended $10.0 million in net capital investments of which $4.4 million was classified as maintenance capital and $5.6 million was classified as growth capital. The classification of capital as growth or maintenance is subject to judgment as many of the Fund's capital projects have components of both. It is the Fund's policy to treat all capital related to service station upgrades (i.e. Fas Gas Plus) as maintenance capital even though it includes the expectation of a financial return, while the construction of a new convenience store on an existing site is considered growth capital.

The primary components of maintenance capital in 2004 were $2.1 million for Fas Gas Plus upgrades and $1.6 million for normal replacement of the trucking fleet.

The 2004 growth capital related primarily to the construction of four Short Stop convenience stores.

Parkland owns 109 of the sites utilized in the Fas Gas and Short Stop retail chains, an industrial property in Red Deer used as a maintenance facility, a fuel terminal facility in Whitehorse and the refinery property. The Fund also has lease-to-purchase arrangements on four of the Fas Gas properties, while most remaining retail sites are controlled through long-term lease arrangements.

Parkland operates its own fleet of trucks to meet its fuel hauling needs. Currently, the truck fleet of 38 power units and 70 trailer units is owned by the Fund, either directly or through capital leases. The Fund's capital plans are that power units will be replaced every three years and trailers every ten years, but the expenditure level can be accelerated or slowed depending on specific needs and financial performance. The Fund also has the option of entering into operating leases as an alternative to purchasing these units.

Interest

For the year ended December 31, 2004, interest on long-term debt was $0.7 million as compared to $0.9 million for the year ended December 31, 2003. Average debt levels have remained comparable but interest costs have decreased as a result of lower interest rates. Approximately 73 percent of the Fund's long-term debt bears interest at variable rates linked to prime.

Income Taxes

The income tax recovery is $8.7 million for the year ended December 31, 2004 as compared to a provision of $0.3 million for the year ended December 31, 2003. Virtually all of the 2004 recovery relates to the writedown of the refinery assets, which is not deductible in the current period for tax purposes. Parkland's income taxes payable would usually be expected to be nominal as it is a trust and taxes are paid on distributions directly by the unitholders in the Fund or the LP.

The allocation of taxes to the unitholders for 2004 is based on the calculated taxable income of the Fund as follows:

$000's		
Net loss before tax	$	(4,761)
Permanent differences		(250)
Timing differences		25,841
Taxable income	$	20,830
Distributions		21,075
Taxable portion of distributions		98.84%

Quarterly Financial Information

($000's except per unit amounts) Three months ended	March 31	June 30	September 30	December 31
2004				
Net sales and operating revenues	**$ 141,262**	**$ 179,274**	**$ 197,193**	**$ 168,929**
Net earnings (loss)	**$ 824**	**$ 12,502**	**$ 5,769**	**$ (15,135)**
Earnings (loss) per share – diluted	**$ 0.07**	**$ 1.02**	**$ 0.47**	**$ (1.24)**
EBITDA	**$ 3,066**	**$ 14,991**	**$ 8,148**	**$ 4,324**
2003				
Net sales and operating revenues	$ 128,688	$ 140,253	$ 164,070	$ 134,215
Net earnings (loss)	$ 2,977	$ 6,150	$ 8,938	$ 2,226
Earnings (loss) per share – diluted	$ 0.25	$ 0.51	$ 0.73	$ 0.19
EBITDA	$ 4,886	$ 8,384	$ 11,330	$ 4,448

With the exception of the recognition of the loss on the writedown of the refinery assets in the fourth quarter of 2004, the quarterly financial information demonstrates typical seasonal trends in the Fund's business. In the first quarter, fuel demand is relatively weak which causes excess supply and less favourable market conditions. The second and third quarters significantly improve with spring and summer driving seasons and increased industrial and farm activity creating higher demand, while the fourth quarter sees a return to more average market conditions. In 2004, the Fund realized higher than expected results in the second quarter as a result of fuel margins being higher than those typically experienced during that season. In the third quarter, margins were below typical seasonal levels as increasing crude prices were not adequately reflected in retail pump prices on a timely basis. Management anticipates that quarterly earnings in 2005 will follow normal seasonal trends but may be affected by unforeseen market events.

Fourth Quarter Results

Excluding the $25.3 million loss on the writedown of the refinery assets, the fourth quarter of 2004 showed a slight decline from 2003 as net earnings before tax decreased to $1.6 million from $2.3 million and EBITDA decreased to $4.3 million from $4.4 million. Fuel volumes and margins were consistent with the prior year. Margin weakness on fuel products experienced in the third quarter continued early in the fourth quarter but recovered toward the end of the year, particularly on distillates, which were in tight supply in Parkland's market area. Merchandise sales and margins increased over 2003 as a result of the increase in the number of stores and higher same-store sales. Marketing, general and administrative expenses were consistent with the prior year.

Liquidity and Capital Resources

Working Capital

Parkland's working capital increased to $1.9 million at December 31, 2004 as compared to negative $0.2 million at December 31, 2003. The increase is primarily the result of the cash flow generated during the year exceeding distributions. The Fund continues to have strong operating cash flow to service its distribution commitments. The cash balance at December 31, 2004 of $5.3 million has also increased from the December 31, 2003 balance of $2.7 million. It is typical for the Fund to have minimal or negative working capital as a significant portion of its sales are on a cash basis, inventory turns quickly and average payable terms with vendors exceed average receivable terms with customers who have credit privileges. The Fund also has available a $28 million line of credit to finance letters of credit and short-term cash flow needs. Assuming normal seasonal trends, it is expected the Fund will need to use current cash balances to finance distributions in the first quarter of 2005.

Financing Activities

During the year ended December 31, 2004, Parkland increased its long-term debt by $2.6 million as a result of normal repayment of existing term debt offset by new debt and capital leases. At December 31, 2004, Parkland had $13.2 million in long-term debt (excluding current portions), which is 0.43 times EBITDA. Management believes that

cash flow from operations will be adequate to fund maintenance capital, interest and targeted distributions. Growth capital expenditures in 2004 have been funded by existing cash balances, cash flow from operations and approximately $2.5 million in additional net debt. It is management's intent on an ongoing basis to finance growth capital through debt or the issue of additional units. Any additional debt would be serviced by anticipated increases in cash flow and it is expected that debt to EBITDA ratios would be maintained at relatively conservative levels.

Distributions

Commencing in July 2002, the Fund established a monthly distribution policy whereby holders of record on the last day of a month would receive a distribution on the fifteenth of the following month. The monthly distribution amount remained consistent at $0.14 per unit from August 15, 2002 through August 15, 2004, at which time the monthly payment per unit was increased to $0.15, where it has since remained. Total distributions in 2004 were $21.1 million and estimated distributions in 2005, assuming continued $0.15 per month payments, would be $22.1 million on the 12,252,478 Fund and LP units outstanding on February 17, 2005.

Coincident with the conversion to an income fund on June 28, 2002, Parkland paid a special distribution of $1.00 per share ($0.50 per unit) to the Parkland shareholders who exchanged their shares.

Cash Available for Distribution

($000's)	For the three month period ended March 31, 2004	June 30, 2004	September 30, 2004	December 31, 2004	For the year ended December 31, 2004
EBITDA	$ 3,066	$ 14,991	$ 8,148	$ 4,324	$ 30,529
Maintenance capital expended	(155)	(2,257)	(780)	(1,160)	(4,352)
Capital taxes and interest	(209)	(256)	(44)	(126)	(635)
Cash available for distribution	$ 2,702	$ 12,478	$ 7,324	$ 3,038	$ 25,542
Cash distributed	$ 5,106	$ 5,112	$ 5,361	$ 5,496	$ 21,075

Although it is typical for the Fund's cash flow to have seasonal fluctuations, it is management's current intention to pay consistent distributions throughout the year based on estimated annual cash flows. The Trustees review distributions quarterly giving consideration to current performance, historical and future trends in the business and the expected sustainability of those trends, as well as maintenance capital requirements to sustain performance.

During 2004, distributions represented a conservative payout ratio of 69 percent of EBITDA or 83 percent of Cash Available for Distribution. Assuming similar market conditions, payout ratios are not expected to change significantly in 2005.

Contractual Obligations

The Fund has contracted obligations under various debt agreements as well as under operating and capital leases for land, building and equipment. Minimum lease and principal payments under the existing terms are as follows:

($000's) Year ending December 31	Mortgages, bank loans and notes payable	Operating leases	Capital leases
2005	$ 2,139	$ 1,618	$ 2,319
2006	2,016	1,249	4,174
2007	1,565	977	866
2008	2,291	636	377
2009	697	351	188
Thereafter	–	240	1,003

The Fund also has purchase commitments under its fuel supply contracts that require it to purchase approximately one billion litres of product over the next year.

Critical Accounting Estimate

As detailed elsewhere in this document, Parkland has recorded the refinery assets at the net estimated liability that would be realized if the refinery assets were remediated, dismantled and sold for salvage values. Estimated remediation costs are supported by a third party report, while other costs and salvage values are based on management estimates.

Actual costs and salvage values could differ significantly from these estimates when, and if, the refinery is remediated, dismantled and sold. Alternatively, if the Blood Tribe sale is completed or the refinery is re-opened in its current or an alternative state, there is the potential for positive cash flow from the assets.

Change in Accounting Policy

Effective January 1, 2004, the Fund adopted a new accounting policy related to Asset Retirement Obligations, as required by the CICA Handbook Section 3110. The effects of this policy on the December 31, 2004 balance sheet was to increase capital assets by $264,000 to recognize an Asset Retirement Obligation of $1,043,000, to reduce Unitholders' Capital by $278,000 and to reduce previously recorded Site Restoration Costs of $502,000. The income statement effect in the year ended December 31, 2004 was minimal.

Non-Capital Resources

Employees

Parkland's ability to deliver on its strategy is contingent on retaining and acquiring employees with the proper skill sets to drive the key initiatives forward. As such, there is a focus on recruiting and retaining key employees. To date, the Fund has been successful at filling key positions as needed and has had minimal turnover in senior management roles. Compensation plans for senior management have significant incentive arrangements, with overall compensation dependent on Parkland's performance, divisional operating performance and results on individually identified key initiatives.

Parkland has an active Human Resources department, with compensation plans and benefits reviewed on an ongoing basis to best meet the needs of Parkland and the various employee groups it includes. Parkland provides a unit purchase plan with matching employer contributions. A profit sharing plan is also available to most employees with greater than two years service. Initiatives like these are intended to bring a sense of ownership to the employee groups, as increases in profits and unit prices are beneficial to all. Parkland does not have a pension plan.

Safety

In addition to other risks, the Fund's primary business involves the transportation and sale of fuel products, which have a high inherent degree of risk. The Fund provides training to all staff as required to mitigate these risks and has operations and response manuals to cover common situations. Safety bonuses are also provided to employees in higher risk roles as a means of motivating safe performance of duties.

A team of Parkland employees and outside consultants is currently in the process of consolidating and updating safety documentation to ensure all identified risks are properly mitigated and that procedures and documentation are consistent across the entire organization.

Technology

Parkland utilizes technology to assist with the administration and control of its operations. Technology initiatives are primarily implemented in-house with outside consultants used only to assist in specific areas. Parkland's technology initiatives include upgrading Point of Sale systems at convenience store and service station sites, upgrading cardlock hardware and software and continued maintenance and security related to overall network administration and Enterprise Resource Planning software. Based on the current long-range technology plans, there are no significant issues anticipated that will cause undue risk to Parkland's business related to required or planned technology changes.

Internal Controls

Parkland's Board and management are aware of anticipated legislation related to internal controls certification. As such, there is currently an initiative to review and enhance existing systems documentation, analyze risks and identify and test key controls. The Fund believes that it will be able to comply with expected changes when required.

Business Risks

Retail Pricing and Margin Erosion

Retail pricing for motor fuels is very competitive, with major oil companies and new entrants such as grocery chains and large retailers active in the marketplace. From time to time, factors such as competitive pricing, seasonal over-supply and lack of responsiveness of retail pricing to changes in crude oil costs can lead to lower margins in our business. This is normally limited to seasonal time frames or limited market areas but could occur more extensively. Furthermore, difficult fuel market conditions may also adversely affect the Fund's major customers and create increased credit risk. These risks are partially mitigated by the Fund's other sources of revenue, by its conservative credit policies, by its geographic diversification and by the wholesale business, which typically would only share in a portion of any market erosion.

Environmental

The operation of service stations, refinery facilities and petroleum transport trucks carry an element of environmental risk. To prevent environmental incidents from occurring, the Fund has extensive environmental procedures and monitoring programs at all of its facilities. To mitigate the impact of a major accident, Parkland has emergency response programs in place and provides its employees with extensive training in operational responsibilities in the event of an environmental incident.

Economic Conditions

Demand for transportation fuels fluctuates to a certain extent with economic conditions. In a general economic slowdown there is less recreational and industrial travel and consequently less demand for fuel products, which may adversely affect the Fund's revenue, profitability and ability to pay distributions.

Alternate Fuels

Industry continues to develop alternatives to fossil fuels for motive transport and continues to improve the efficiency of internal combustion engines. To date, no economically viable alternative to the transportation fuels the Fund markets is widely available. Should such an alternative become widely available, it may negatively affect the demand for the Fund's products. As well, certain provinces are developing legislation requiring the inclusion of ethanol in gasoline, which may negatively affect the overall demand for fuel products.

Technology

At the operational level, the Fund relies on electronic systems for recording of sales and accumulation of financial data. A major breakdown of computer systems would disrupt the flow of information and could cause a loss of records. This is mitigated by redundancies, emergency response plans and backup procedures.

Dependence on Key Suppliers

The Fund's business depends to a large extent on a small number of fuel suppliers, some of which are parties to long-term supply agreements. An interruption or reduction in the supply of products and services by such suppliers could adversely affect the Fund's revenue and distributions in the future.

management's responsibility for financial statements

The accompanying financial statements of Parkland Income Fund have been prepared by management in accordance with generally accepted accounting principles. Parkland's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. In recognizing that the Fund is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been prepared accordingly and within reasonable limits of materiality. Further, management is satisfied that the financial information throughout the balance of this annual report is consistent with the information presented in the financial statements.

PricewaterhouseCoopers LLP have been appointed by the unitholders of Parkland to serve as the Fund's external auditors. They have examined the financial statements of the Fund for the year ended December 31, 2004. The financial statements of the Fund for the year ended December 31, 2003 were audited by other auditors.

The Audit Committee has reviewed these statements with management and the auditors, and has reported to the Board of Directors. The Board has approved the information contained in the financial statements of Parkland which are included in this annual report.

Andrew B. Wiswell
President and CEO
Red Deer, Alberta
February 11, 2005

John G. Schroeder
Vice President and CFO
Red Deer, Alberta

auditors' report

To the Unitholders of Parkland Income Fund We have audited the consolidated Balance Sheet of Parkland Income Fund as at December 31, 2004 and the consolidated Statement of Earnings and Retained Earnings and Cash Flows for the year ended December 31, 2004. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2004 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements of Parkland Income Fund as at December 31, 2003 and for the year then ended were audited by other auditors. Those auditors expressed an opinion without reservation on those consolidated financial statements in their report dated January 30, 2004.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
February 11, 2005

consolidated balance sheet

($000's)	December 31, 2004	December 31, 2003 Restated (Note 2)
Assets		
CURRENT ASSETS		
Cash	**$ 5,286**	$ 2,717
Accounts receivable	**21,923**	15,660
Inventories	**17,973**	19,472
Prepaid expenses	**1,522**	1,637
	46,704	39,486
Other	**2,101**	3,075
Capital assets (Note 3)	**66,652**	63,955
Future income taxes (Note 7)	**1,960**	–
Assets held for sale (Note 4)	**–**	22,086
	$ 117,417	$ 128,602
Liabilities		
CURRENT LIABILITIES		
Accounts payable	**$ 40,315**	$ 35,140
Long-term debt – current portion (Note 5)	**4,466**	4,555
	44,781	39,695
Long-term debt (Note 5)	**13,169**	10,582
Asset retirement obligations (Note 2)	**1,043**	930
Refinery closure accrual (Note 4)	**3,400**	–
Future income taxes (Note 7)	**–**	6,658
	62,393	57,865
Unitholders' Capital		
Class B Limited Partners' Capital (Note 6)	**18,833**	31,487
Unitholders' Capital (Note 6)	**36,191**	39,250
	55,024	70,737
	$ 117,417	$ 128,602

Approved by the Board of Directors

Jack C. Donald
Chairman of the Board

Andrew B. Wiswell
President and CEO

consolidated statement of earnings and retained earnings

($000's except per unit amounts)

For the years ended December 31	2004	2003
		Restated (Note 2)
Net sales and operating revenues	$ 686,658	$ 567,226
Cost of sales and operating expenses	603,766	489,804
Gross margin	82,892	77,422
Expenses		
Marketing, general and administrative	52,363	48,374
Amortization	9,242	7,577
Loss on writedown of refinery assets	25,310	–
Interest on long-term debt	738	897
	87,653	56,848
Earnings (loss) before income taxes	(4,761)	20,574
Income tax expense (recovery) (Note 7)		
Current	(103)	50
Future	(8,618)	233
	(8,721)	283
Net earnings	3,960	20,291
Retained earnings, beginning of year	–	–
Allocation to Class B Limited Partners (Note 6)	$ (2,187)	$ (9,175)
Allocation to Unitholders (Note 6)	$ (1,773)	$ (11,116)
Retained earnings, end of year	$ –	$ –
Net earnings per unit – basic	$ 0.33	$ 1.67
Net earnings per unit – diluted	$ 0.32	$ 1.66
Units outstanding, end of year	12,221	12,132

consolidated statement of cash flows

($000's) For the years ended December 31	2004	2003 Restated (Note 2)
Cash Provided By (Used For) Operations		
Net earnings	$ 3,960	$ 20,291
Add (deduct) non-cash items		
Amortization	9,242	7,577
Unit option compensation	97	29
Accretion expense (Note 2)	57	57
Loss on writedown of refinery	25,310	–
Future taxes	(8,618)	233
Funds flow from operations	30,048	28,187
Net changes in non-cash working capital (Note 10)	526	3,382
Cash from operating activities	30,574	31,569
Financing Activities		
Proceeds from long-term debt	5,485	568
Long-term debt repayments	(4,556)	(3,092)
Fund Units issued	1,305	89
Distributions to Class B Limited Partners	(8,534)	(9,213)
Distributions to Unitholders	(12,541)	(11,163)
Cash (used for) financing activities	(18,841)	(22,811)
Investing Activities		
Change in other assets	974	571
Purchase of fixed assets	(12,265)	(9,917)
Proceeds on sale of fixed assets	2,127	658
Cash (used for) investing activities	(9,164)	(8,688)
Increase in cash	2,569	70
Cash and Cash equivalents, beginning of year	2,717	2,647
Cash and Cash equivalents, end of year	$ 5,286	$ 2,717

notes to consolidated financial statements

December 31, 2004
Dollar and unit amounts presented in tables are in thousands, except per unit information

Significant Accounting Policies

Basis of Presentation

Parkland Income Fund (the "Fund" or "Parkland") is an unincorporated, open-ended limited purpose mutual fund trust established under the laws of the Province of Alberta on April 30, 2002. The Fund was created to acquire the fuel marketing, convenience store and related ancillary businesses formerly owned by Parkland Industries Ltd. This acquisition was completed on June 28, 2002 through a Plan of Arrangement that resulted in the previous Parkland Industries Ltd. shareholders indirectly exchanging their shares for Units in the Fund or Class B Limited Partnership Units in Parkland Holdings Limited Partnership ("LP Units"), a limited partnership controlled by the Fund.

Principles of Consolidation

The consolidated financial statements include the accounts of all wholly owned subsidiaries, partnerships and trusts. All significant accounts and transactions between consolidated entities are eliminated.

The LP Units are, to the greatest extent possible, the economic equivalent to a Unit in the Fund. They are exchangeable by the holder on a one-for-one basis into Units in the Fund until June 30, 2008. In certain circumstances, and at any time after June 30, 2008, the Fund may compel the exchange of the LP Units. As such, the LP Units are treated as being equivalent to Fund Units.

Use of Estimates

The preparation of the financial statements necessarily involves the use of estimates and approximations. Should the underlying assumptions change, the actual amounts could differ from those estimated.

Estimates are used when accounting for items such as allowance for doubtful accounts, asset retirement obligations, the refinery closure cost accrual and amortization.

Inventories

The Fund values its inventories at the lower of cost and market value. The Fund uses the last-in, first-out (LIFO) method of determining the cost of product inventory.

Amortization

Amortization is provided for on a straight line basis over the estimated useful lives of assets at the following annual rates:

Land improvements	4%
Buildings	5%
Equipment	10-20%
Assets under capital lease	10-20%

Assets held for sale are not subject to amortization.

Income Taxes

Income earned directly by the Limited Partnership is not subject to income taxes as its income is taxed directly to the Limited Partnership unitholders. Income earned in the Fund and distributed to the Fund unitholders is taxed directly to the Fund unitholders. Income taxes incurred by taxable entities controlled by the Fund are accounted for using the future method. Under this method, the Fund recognizes a future tax liability whenever recovery or settlement of the carrying amount of an asset or liability would result in future income tax outflow. Similarly, the Fund recognizes a future income tax asset whenever recovery or settlement of the carrying amount of an asset or liability would generate future income tax reductions.

Long-term future tax assets or liabilities arise primarily due to differences in the provision for amortization for income tax purposes and the amount recorded in the accounts.

Asset Retirement Obligations

The estimated future costs to remove underground fuel storage tanks at locations where the Fund has a legal obligation to remove these tanks is recorded as an Asset Retirement Obligation at the time the tanks are installed. A corresponding increase to the carrying value of the fuel storage tanks is also recorded at installation. The Fund recognizes accretion expense in connection with the discounted retirement obligation and amortization in connection with the increase in carrying value over the estimated remaining life of the respective underground fuel storage tanks.

Long-Term Debt

Capital lease obligations, which relate to transactions which are similar in nature to a purchase, are capitalized and included in long-term debt.

Earnings Per Unit

Basic earnings per unit are calculated on the weighted average number of units outstanding for the period. Diluted earnings per unit are calculated by application of the Treasury Stock Method. Under this method, the units are calculated based upon the weighted average number of units outstanding for the period plus the dilutive effect of the exercise of those employee stock options which were "in-the-money" during the period.

Revenue

Net sales and operating revenue are recorded net of provincial fuel taxes. The Fund recognizes revenue on its sale of goods when title passes to the purchaser.

Grants of Options

The Fund accounts for its grants of options in accordance with the fair value based method of accounting for stock-based compensation.

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments, such as money market deposits or similar type instruments, with a maturity of three months or less when purchased.

1. Earnings Analysis and Earnings per Unit

For the years ended December 31		2004		2003
				Restated (Note 2)
Earnings (loss) before tax	$	(4,761)	$	20,574
Income tax expense (recovery)				
Current		(103)		50
Future		(8,618)		233
Total income tax expense (recovery)	$	(8,721)	$	283
Net earnings	$	3,960	$	20,291
Earnings per unit – basic	$	0.33	$	1.67
– diluted	$	0.32	$	1.66

For the years ended December 31	2004	2003
Equivalent units outstanding, beginning of year	**12,132**	12,127
Weighted average of equivalent units issued pursuant to distribution reinvestment plan	**10**	2
Weighted average of equivalent units issued pursuant to exercise of employee unit options	**40**	–
Denominator utilized in basic earnings per unit	**12,182**	12,129
Incremental equivalent units outstanding that were "in-the-money"	**106**	107
Denominator utilized in diluted earnings per unit	**12,288**	12,236

2. Asset Retirement Obligations

Commencing in January 2004, the Fund adopted a new accounting policy related to Asset Retirement Obligations as required by Section 3110 of the CICA Handbook. Under this policy, the Fund records an estimated liability for the future cost to remove underground fuel storage tanks at sites where it has legal obligations to remove these tanks. A liability for the fair value of an asset retirement obligation with a corresponding increase to the carrying value of the related fuel storage tank is recorded at the time the tank is installed. The Fund amortizes the amount added to capital assets and recognizes accretion expense in connection with the discounted liability over the estimated remaining life of the respective underground storage tank.

The Fund retroactively adopted the new policy and the effects at January 1, 2003 were: recording a discounted liability of $872,000; increasing net capital assets by $293,000; and recognizing a decrease to unitholders' capital of $579,000. Additionally, as a component of the change in policy, previously recorded site restoration costs of $245,000 were reversed and a corresponding increase in unitholders' capital was recorded. On an undiscounted basis, the estimated liability is $1.5 million, with costs expected to be incurred between 2005 and 2019. The discount rate used to calculate the liability is 6.5 percent. Results of operations for prior fiscal periods have been retroactively restated as follows:

For the year ended December 31		2003
Marketing, general & administrative		
As previously stated	$	48,574
Accretion expense		57
Site restoration accruals		(257)
As restated	$	48,374
Amortization		
As previously stated	$	7,533
Amortization of asset retirement costs		44
As restated	$	7,577

A reconciliation of the Fund's liability for the removal of its underground fuel storage tanks is as follows:

For the years ended December 31	2004	2003
Asset retirement obligations, beginning of year	$ 930	$ 873
Additions during the year	56	–
Accretion expense	57	57
Asset retirement obligations, end of year	$ 1,043	$ 930

3. Capital Assets

December 31, 2004

	Cost	Accumulated Amortization	Net Book Value
Land	$ 14,508	$ –	$ 14,508
Land improvements	6,238	1,862	4,376
Buildings	20,455	8,035	12,420
Assets under capital lease	13,168	5,304	7,864
Equipment	58,137	30,653	27,484
	$ 112,506	$ 45,854	$ 66,652

December 31, 2003

	Cost	Accumulated Amortization	Net Book Value
Land	$ 13,317	$ –	$ 13,317
Land improvements	5,886	1,709	4,177
Buildings	20,412	7,811	12,601
Assets under capital lease	11,011	4,010	7,001
Equipment	56,561	29,702	26,859
	$ 107,187	$ 43,232	$ 63,955

4. Assets Held for Sale

In December 2004, the Fund reduced the carrying value of its Bowden refinery by $25.3 million to a net liability of $3.4 million based on the uncertainty of creating an alternative to the refinery being dismantled, remediated and sold for salvage values. A corresponding future tax recovery of $8.6 million was also recorded, related to the writedown.

Operations at the refinery have been suspended since September 2001 pending the completion of a sale to the Blood Tribe/Kainaiwa Specific Claim Trust No. 1 of Standoff, Alberta. The sale terms are outlined in a non-binding Letter of Intent amended in October 2003. The Tribe is currently working on one of the key remaining conditions to the transaction, which is to obtain confirmation of its exemption from excise tax obligations, on reserve lands. The Tribe has initiated legal action against the Federal Government related to this taxation issue. Should the remaining conditions to the sale be satisfied, the Fund would receive proceeds from the sale of the refinery assets out of the refinery cash flows realized subsequent to the sale. The total gain realized on the sale will be contingent on the amount of such cash flows.

In prior periods, the Fund has recorded the refinery assets at their previous carrying amounts based on the assumption that the sale to the Blood Tribe would be completed and that the proceeds from this sale would significantly exceed the carrying value. However, in 2004, no tax ruling has been given and it appears that court proceedings to achieve a ruling could take an extended period of time. Although the refinery remains in a state of readiness for such a sale, the uncertainty of the timing and ultimate successful completion of the sale is such that the sale value is no longer considered an appropriate measure of the value of the refinery assets. The Fund is also pursuing

alternative uses for the refinery site and equipment and is in discussion with interested parties. However, to date there have been no specific financial proposals completed. The timing and cash flows related to possible alternative uses is also uncertain and not considered an appropriate measure for determining the value of the refinery assets.

The Fund remains optimistic that the refinery assets can generate positive cash flows in the future, but in the absence of specific timing or proposals, the decision was made to write down the assets to salvage value net of remediation costs. Remediation costs are supported by third party estimates while salvage values are based on management estimates. The actual net amounts realized for the refinery assets could vary significantly from the carrying value.

Annual costs of approximately $400,000 will continue to be incurred to protect the value of the refinery assets. These costs primarily relate to security, maintenance, insurance and property taxes and will continue to be expensed as incurred.

5. Long-Term Debt

	December 31, 2004	December 31, 2003
Bank loans secured by an assignment of accounts receivable, inventories and demand debentures creating a first fixed charge over specific fixed assets and floating charge upon all other assets. The loans are repayable in monthly installments of $84,272 including interest at prime plus 0.35 percent. The effective interest rate at year-end was 4.60 percent (2003 – 4.85 percent). The loans mature on November 30, 2006 and December 31, 2009.	$ 3,286	$ 1,188
Mortgages payable in monthly installments totaling $128,425 including interest. Interest rates vary from 5.2 percent to 8.5 percent and prime plus 0.7 percent to prime plus 0.8 percent per annum. The effective rates of interest at year-end for the prime based loans were 5.0 percent to 5.1 percent (2003 – 5.2 percent to 7.5 percent). The mortgages are secured by real properties with a net book value of $9,285,000 and mature at various dates ending May 7, 2009.	5,359	7,007
Capital leases payable in monthly installments totaling $228,298 including interest varying from 4.5 percent to 15.5 percent and prime plus 0.35 percent per annum. The effective rate of interest at year-end for the prime based leases was 4.60 percent (2003 – 4.85 percent). The leases are for land, buildings and equipment with a net book value of $9,753,000 and mature at various dates ending July 2022.	8,928	6,702
Unsecured notes repayable in monthly installments totaling $15,625. The notes are discounted at 6.0 percent per annum.	62	240
	17,635	15,137
Less current portion	4,466	4,555
	$ 13,169	$ 10,582

Estimated principal repayments for the next five years are:

2005	$ 4,466
2006	6,190
2007	2,431
2008	2,668
2009	885
Thereafter	995
	$ 17,635

For the years ended December 31, 2004, and December 31, 2003, the Fund did not incur net interest expense on working capital borrowings, as average monthly cash balances exceeded average borrowings.

The Fund has outstanding letters of credit totaling $18,605,000 (December 31, 2003 – $13,835,000) which mature at various dates to October 21, 2005.

For 2004, the Fund has available lines of credit of $28,000,000, subject to margin calculations. The outstanding letters of credit are considered a part of this facility.

6. Unitholders' Capital

An unlimited number of Fund Units and LP Units may be created and issued, pursuant to the Fund Declaration of Trust and the Amended and Restated Limited Partnership Agreement, respectively, as outlined in the Plan of Arrangement.

Fund Units represent an undivided interest in the Fund. LP Units represent a partnership interest in Parkland Holdings Limited Partnership and are exchangeable on a one-for-one basis into Fund Units. Both Fund Unitholders and LP Unitholders are entitled to vote at meetings of the Fund and are entitled to distributions from time to time as determined by the Trustees.

	December 31, 2004		December 31, 2003	
	Units	Dollars	Units	Dollars
Class B Limited Partnership Units				
Balance, beginning of year, as originally stated	5,411	$ 31,487	5,574	$ 32,654
Change in accounting policy (Note 2)	–	–	–	(182)
Balance, beginning of year, as restated	5,411	31,487	5,574	32,472
Allocation of retained earnings	–	2,187	–	9,175
Distribution to partners	–	(8,534)	–	(9,213)
Exchanged for Fund Units	(1,104)	(6,307)	(163)	(947)
Balance, end of year	4,307	18,833	5,411	31,487
Unitholders' Capital				
Balance, beginning of year, as originally stated	6,721	39,250	6,553	38,384
Change in accounting policy (Note 2)	–	–	–	(152)
Balance, beginning of year, as restated	6,721	39,250	6,553	38,232
Allocation of retained earnings	–	1,773	–	11,116
Unit option compensation	–	97	–	29
Issued under distribution reinvestment plan	22	441	5	89
Issued under unit option plan	67	864	–	–
Distribution to unitholders	–	(12,541)	–	(11,163)
Exchange of Limited Partnership Units	1,104	6,307	163	947
Balance, end of year	7,914	36,191	6,721	39,250
	12,221	$ 55,024	12,132	$ 70,737

The Fund has an Incentive Option Plan under which the Fund may grant up to 1,000,000 Incentive Options to trustees, directors, officers, employees and consultants. The incentive options have a 10 year term and, with limited exceptions, vest proportionately over the first three anniversary dates following the grant.

The table below represents the status of the Fund's Incentive Option Plan as at December 31, 2004 and 2003 and the changes therein for the years then ended:

	2004		2003	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	**361**	**$ 13.04**	–	–
Granted	**170**	**$ 19.03**	381	$ 13.01
Options exercised	**(67)**	**$ 12.87**	–	–
Cancelled	**(26)**	**$ 15.22**	(20)	$ 12.45
Balance, end of year	**438**	**$ 15.26**	361	$ 13.04
Exercisable options at end of year	**55**	**$ 13.23**	–	–

Exercise prices for outstanding options at December 31, 2004 have the following ranges: 252,307 from $12.45 – $15.71, and 185,667 from $17.62 – $20.05, which represent market value at the date of issue.

The corresponding remaining contractual life for these options ranges from 8 to 10 years.

The Fund accounts for its grants of options in accordance with the fair value based method of accounting for stock-based compensation. The total cost to be reported is $301,350. The compensation cost that has been charged against income for the year ended December 31, 2004 is $97,000 (December 31, 2003 – $29,000).

The fair value of the options granted is estimated using the Black-Scholes options pricing model on the basis of the following assumptions:

Expected average annual distribution	$1.68
Expected average volatility	20%
Weighted average risk-free interest rate	3.31%
Expected life	3 years

The weighted average fair value of options granted during the year is $1.11.

Subsequent to December 31, 2004, the Fund has granted an additional 230,000 Unit Options under the Incentive Option Plan.

7. Income Taxes

Income tax expense varies from the amounts that would be computed by applying the Canadian Federal and Provincial income tax rates to earnings before provision for income taxes as shown in the following table:

	December 31, 2004		December 31, 2003	
For the years ended	**Amount of**	**%**	Amount of	%
Provision for income taxes at statutory rates	**$ (1,612)**	**33.87**	$ 7,477	36.62
Add (deduct) the tax effect of:				
Income earned in limited partnership	**(6,796)**	**142.74**	(7,140)	(34.97)
Large Corporation Tax/Capital Taxes	**(103)**	**2.16**	50	0.25
Change in tax rates	**(158)**	**3.32**	(90)	(0.44)
Other	**(52)**	**1.08**	(14)	(0.07)
	$ (8,721)	**183.17**	$ 283	1.39

Capital assets and inventories held directly by the Limited Partnership, having carrying values of $51,739,494 (December 31, 2003 – $50,448,172) and $5,077,934 (December 31, 2003 – $7,064,007), have a tax basis of $47,750,014 (December 31, 2003 – $46,229,430) and $6,331,134 (December 31, 2003 – $7,766,809), respectively.

Future income tax assets or liabilities amounting to $1,960,000 (2003 liability – $6,658,000) relate to the difference in carrying value of the refinery assets to the tax basis. The refinery assets are held by Parkland Refining Ltd., a wholly owned subsidiary of the Fund.

8. Commitments

The Fund has contracted obligations under various debt agreements as well as under operating and capital leases for land, building and equipment. Minimum lease and principal payments under the existing terms for each of the five succeeding years are as follows:

2005	$ 1,618
2006	1,249
2007	977
2008	636
2009	351

The Fund also has purchase commitments under its fuel supply contracts that require the purchase of approximately one billion litres of product over the next year.

9. Financial Instruments

The fair value of cash, accounts receivable and accounts payable are equal to their carrying values due to their short term maturities. The fair value of long-term bank loans equal their carrying values as their interest rates fluctuate with the prime lending rate. The carrying values and fair values of mortgages payable, capital lease obligations, unsecured notes payable and other assets, which consist primarily of mortgages and loans receivables, are as follows:

	December 31, 2004		December 31, 2003	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Mortgages payable	**$ 5,359**	**$ 5,359**	$ 7,007	$ 7,044
Capital lease obligations	**8,928**	**8,991**	6,702	6,721
Notes payable	**62**	**62**	240	241
Mortgages and loans receivable	**2,438**	**2,347**	1,570	2,035

Fair values of mortgages and loans receivable, and long-term debt are estimated using discounted cash flow analysis based upon incremental borrowing rates for similar borrowing arrangements.

The Fund does not have a significant exposure to any individual customer. The Fund reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. Mortgages and loan receivables are receivable in monthly installments of $29,132, bear interest at rates ranging between 0 and 14 percent and are secured by specific assets of the mortgage.

10. Net Changes in Non-Cash Working Capital

	December 31, 2004	December 31, 2003
Accounts receivable	**$ (6,263)**	$ (149)
Inventories	**1,499**	(595)
Prepaid expenses	**115**	(352)
Accounts payable	**5,175**	5,456
Income taxes payable	**–**	(978)
	$ 526	$ 3,382
Other cash flow information:		
Cash taxes paid (received)	**$ (103)**	$ 1,028
Cash interest paid	**$ 738**	$ 897

11. Segmented Information

The Fund's operations are predominantly in fuel marketing in western Canada. Wholesale and retail sales are considered to be a single reportable segment as margins in both are primarily dependent on the difference between fuel costs and retail prices for transportation fuels. In recent years, the Fund initiated operations in the convenience store industry.

The convenience stores have been integrated into fuel marketing properties already owned by the Fund, and all continue to market transportation fuels. Due to the amount of common operating and property costs it is not practical to report these segments below the gross margin.

Similarly, it is not practical to segregate total assets, capital expenditures or cash flows from these segments.

	Fuel Marketing	Merchandise	Total
Year ended December 31, 2004			
Net sales and operating revenues	**$ 648,607**	**$ 38,051**	**$ 686,658**
Cost of sales	**575,603**	**28,163**	**603,766**
Gross margin	**$ 73,004**	**$ 9,888**	**$ 82,892**
Year ended December 31, 2003			
Net sales and operating revenues	$ 535,960	$ 31,266	$ 567,226
Cost of sales	466,578	23,226	489,804
Gross margin	$ 69,382	$ 8,040	$ 77,422

corporate information

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Annual General Meeting
Thursday, May 5, 2005
4 p.m. at the Capri Hotel
Trade and Convention Centre
3310 - 50th Avenue
Red Deer, Alberta

Banker
HSBC Bank Canada
108, 4909 – 49th Street
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Stock Exchange Listing
Toronto Stock Exchange
Trading Symbol: PKI.UN

Registrar and Transfer Agent
Computershare Trust Company of Canada
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Joan M. Donald
Alain Ferland
Kris Matthews
James Pantelidis
Andrew B. Wiswell

Officers
Kelly G. Collier
Controller, Retail

Randy K. Nicholls
Controller, Wholesale

John G. Schroeder
Vice President and CFO
Corporate Secretary
Chief Privacy Officer

Andrew B. Wiswell
President and CEO

Wholly Owned Subsidiaries
Parkland Investment Trust
986413 Alberta Ltd.
Parkland Holdings Limited Partnership
986408 Alberta Ltd.
Parkland Industries Limited Partnership
Parkland Industries Ltd.
Parkland Refining Ltd.

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